

## **The Trading & Property Allowances (Lecture B1091 – 9.28 minutes)**

### *Introduction*

The 2017/18 tax return season will soon be upon us and numbers will need to be entered in boxes.

Boxes 17-21 of the Self-Assessment return (SA100) asks about “Other UK Income Not Included on Supplementary Pages”. This is the “dustbin” section of the return, reserved for bits and bobs of sundry income that are technically taxable but don’t have a natural home anywhere else.

Box 21 requires a description of income being disclosed in this section. In most instances this part will be completed for clients with secondary incomes from transactions in goods or services which fall short of a full-blown trade and are therefore not worthy of making their way on to the Self-Employed pages. For example, receipts from occasional trading via online market places such as eBay and Gumtree or from providing a one-off service for consideration would find their way into Box 17 as would supplementary rental income from the letting or sub-letting of property or renting-out a garage or driveway for storage or parking.

I recently paid a resident of Edgbaston, Birmingham, £10 for the privilege of parking my car on his drive for the day while I went to the Test Match around the corner. No doubt he will be telling his accountant that this is Box 17 income. Box 18 allows a claim for any expenses incurred in generating the miscellaneous income. No breakdown of expenses is required.

The excess of income over expenses is taxable. Or it used to be until 2017/18...

### *The £1,000 Allowance*

Dealing with miscellaneous income has been simplified from 2017/18 with the introduction of the £1,000 Allowance.

There are currently two separate allowances being:

1. The Trading Allowance which is a £1,000 allowance available in respect of trading income and other miscellaneous income from the sale of assets or the provision of services; and
2. The Property Allowance which is a £1,000 allowance available in respect of miscellaneous property income.

The allowances work in a very similar way to each other and broadly stand in place of allowable expenses meaning that receipts within the £1,000 allowance are exempt from income tax and don’t need to be reported in Box 17.

The allowances are mutually exclusive meaning that a taxpayer with £1,000 of miscellaneous trading income and £1,000 of miscellaneous property income can claim both allowances such that the full £2,000 is exempt from income tax. The allowances are not restricted based on other income and are therefore available to all taxpayers.

There is no automatic annual uprating of the allowances. The £1,000 limit can be uplifted by statutory instrument but we all know the Government's record on such things so it wouldn't be the biggest surprise if the allowances remained at the current level for many years thereby eroding the value of the relief over time.

Before we consider the details of each allowance, bear in mind that these allowances are only brought into play in the first place if the miscellaneous receipts would otherwise be chargeable to income tax. For example, receipts from a one-off sale of bric-a-brac found in the loft or inherited from Aunt Mable's estate will probably be capital in nature with any resulting gains being exempt from CGT under the chattels rules. [These rules were covered in a TSO lecture from February 2018 – notes are available via the Archive if you need a reminder.] Repeated sales via an online market or through the boot of a car might on the other hand be evidence of trading thereby bringing the allowance into consideration.

Also, occasional rental receipts from a spare room in the taxpayer's main residence are likely to be exempt under the rent-a-room scheme so consideration of the property allowance would not then be necessary. [But be aware of the new "shared-occupancy" test for the rent-a-room scheme being introduced in April 2019 which will deny rent-a-room relief for certain lettings. That in turn will bring the property allowance into play.]

### *The Trading Allowance*

The trading allowance is available in respect of an individual's 'relevant income'. Relevant income means gross income (before expenses) from either:

- A relevant trade; and/or
- Miscellaneous income not otherwise charged to tax (in the Jurassic period we used to call this Schedule D Case VI). This will typically cover receipts from casual services, for example, babysitting, cake-making, dog-walking, ironing, DIY, decorating, gardening or any similar ancillary activity we enter into to help make ends meet.

If the individual's relevant income does not exceed the trading allowance of £1,000, the profit of any relevant trade or any miscellaneous income is treated as nil. Losses are also treated as nil so the application of the trading allowance cannot create an allowable loss.

This is called "full relief" and is the default position. No claim is required for full relief to apply. No tax return disclosures are necessary and Box 17 can be left bare. As the income is treated as nil, it will not result in a clawback of child benefit or personal allowances. It is also disregarded for claiming tax credits (but not necessarily for other income-related benefits, so this should be checked for taxpayers in this position).

An individual can elect for full relief not to be given. The election disapplies the trading allowance so that the profit or loss is calculated under normal business income rules. The election can be made year-on-year and will be of benefit where allowable expenses exceed income in the year and a loss would be created. [Do remember here that sideways relief for losses against other income in the tax year is only available if the taxpayer is carrying on a genuine trade. Losses on non-trading activities will be carried forward against miscellaneous income in future years.]

There is a third option in the form of “partial relief”. This applies where relevant income exceeds the trading allowance and permits the deduction of a flat £1,000 of allowable expenses with the excess being subject to tax. No actual expenses can be deducted (this includes capital allowances) and no records need to be kept. This election is beneficial for taxpayers with low expenses.

For example, if a taxpayer makes a one-off sale of goods via eBay, this falls short of a trade and would be treated as miscellaneous income. If the taxpayer has costs of less than £1,000, partial relief would be taken. This is claimed by entering the net amount (being receipts less £1,000) in Box 17 and adding a brief note in Box 21 by way of explanation.

If the receipts are treated as trading receipts (as opposed to miscellaneous income), the “self-employment” pages must be completed. The trading allowance is then claimed in Box 16.1 (or Box 10.1 if the shorter version of the self-employment pages is being used). The expenses boxes would not then be completed.

Elections for full or partial relief must be made no later than the anniversary of the SA filing date (although it is logical for taxpayers to make their claim via the relevant SA return).

*Example:*

Stephanie is a tax writer employed by a large publishing company. In 2017/18 she undertook some freelance tax consulting work generating fees of £1,800. Expenses incurred in generating this income were £200.

Full relief is not available as Stephanie’s relevant income exceeds the trading allowance of £1,000.

Stephanie therefore has two choices:

1. If she disapplies the trading allowance, her profit is calculated under normal business income rules and will be  $£(1,800 - 200) = £1,600$ .
2. If she elects for partial relief, a flat deduction of £1,000 is given for expenses reducing the taxable profits to  $£(1,800 - 1,000) = £800$ .

Stephanie should therefore elect for partial relief no later than 31 January 2020. The self-employed pages would need to be completed (albeit with only two numerical entries).

*Class 4 NIC*

The trading allowance will also apply for Class 4 NIC purposes, so the amounts chargeable to income tax and Class 4 NIC are (thankfully) aligned.

The Class 4 charge will be triggered by entries on the self-employed pages, so miscellaneous income that is charged to tax will not be subject to Class 4 NIC.

*Income excluded from the trading allowance*

There are anti-avoidance rules that prevent the artificial generation of small amounts of income in order to use the trading allowance.

Where the individual's relevant income includes any of the income sources listed below, the trading allowance is not available:

- Income from the individual's or spouse/civil partner's employer (for example, a payment from an employer on a freelance basis for a job which is outside the normal contract of employment);
- Income from a partnership of which the individual (or an associate) is a member; or
- Income from a close company in which the individual (or an associate) is a shareholder.

This means that if, for example, an individual received a payment for a one-off job from a company run by his wife, the trading allowance is not available AT ALL for that tax year, even against other miscellaneous income generated elsewhere. Both sources of income would be fully taxable (with relief for allowable expenses).

Where an individual is disqualified from benefitting from the trading allowance, he will still be able to use the property allowance in the same tax year (assuming none of the property allowance exclusions apply – see below).

### *Second trades*

Where an individual has two (or more) trades, the receipts of all trades are aggregated for determining eligibility for the trading allowance. This means that an individual with an existing sole-trade business is unlikely to benefit from the trading allowance where he has a smaller secondary trade (unless aggregated receipts from the combined trades are less than £1,000 which is highly unlikely).

For example, if Stephanie (in the example above) was a self-employed tax-writer instead of an employee, the freelance tax consulting work would not be eligible for the trading allowance (or more accurately any claims for the trading allowance would probably be disadvantageous compared with deducting actual expenses). As her expenses in relation to this freelance work were less than £1,000, she would end up paying more tax on this income.

### *The Property Allowance*

The property allowance is available in respect of an individual's 'relevant property income'.

'Relevant property income' consists of the individual's 'relievable receipts' from the relevant property business (both UK and overseas). 'Relievable receipts' are all receipts that would be brought into account in computing the individual's property-business profits, excluding rent-a-room receipts and distributions of property income from an authorised investment fund or from a Real Estate Investment Trust (REIT). Profits from furnished holiday lets are also eligible for the property allowance.

Relievable receipts are identified on a cash basis (the legislation deems the individual to have made an election for the simplified cash basis for the purpose of seeing if the £1,000 limit is exceeded. This rule also applies for the trading allowance).

The property allowance can therefore be used by anyone with a property business. However it is primarily aimed at taxpayers with small amounts of rental income with the intention of simplifying the process of calculating and reporting rental profits.

Where relevant property income does not exceed £1,000, the income is exempt from tax and does not have to be declared. As with the trading allowance, this is “full relief” and is the default position.

As with the trading allowance the individual can either:

- Elect not to receive full relief and instead compute the profits or losses of the property business on the normal basis, deducting allowable expenses against property income; or
- Elect for partial relief, with profits then calculated by deducting the £1,000 property allowance from relievable receipts with no expenses considered. If the individual has more than one relevant property business (for example, a UK property business and an overseas property business), he can allocate the property allowance between the businesses as he chooses but no loss can be created in any one business. This may be a consideration if there are brought forward losses from one of the property businesses as one would wish to maximise profits to match the available loss.

Elections must be made within one year of the normal SA filing deadline (being 31 January 2020 for 2017/18).

Where relevant property income exceeds £1,000, the property pages must be completed. There is a box (Box 20.1) for the property allowance where partial relief is claimed.

An individual is excluded from using the property allowance if:

- He is carrying on a property business in partnership; or
- He is claiming a tax reduction for disallowed loan interest payments (as this will necessitate a claim for part of the interest expense which will negate the property allowance); or

The property income includes payments from an employer, from a partnership in which that individual is a partner or from a close company in which the individual is a shareholder (or an associate of a shareholder). Persuading one's employer to pay a rent of £20 a week to park their company car on your driveway is not therefore a planning option.

The property allowance is available where a property (or properties) is/are owned jointly in an arrangement that is not run as a partnership. In this case an individual's share of the relievable receipts are eligible for the property allowance. It is therefore conceivable that a husband and wife who jointly own a property that is let out could use their property allowance in different ways.

### *Conclusion*

In this electronic age it is becoming easier and easier to supplement our income via online platforms and digital marketplaces. Most of the time this can be done at the press of the button with the only 'costs' being invested in the process is time.

The Trading and Property Allowances not only make the disclosure of the resulting profits relatively painless, they can also reduce the tax liability on the receipts. These allowances should not therefore be overlooked.

*Contributed by Steve Sanders*